ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.
BALANCE SHEETS

	AS OF FEBRUARY 28 2003	2002
Assets		
Current Assets		
Cash and cash equivalents	$ 1,282,972	$ 165,472
Accounts receivable, less allowance for doubtful accounts of $65,117 and $73,269	2,021,391	2,724,907
Notes receivable	288,100	561,829
Refundable income taxes	548,490	-
Inventories	3,062,135	3,127,090
Deferred income taxes	174,616	138,591
Other	276,002	313,943
Total current assets	7,653,706	7,031,832
Property and Equipment, Net	5,618,239	5,983,906
Other Assets		
Notes receivable, less valuation allowance of $49,446 and $235,689	801,309	2,353,355
Goodwill, net	1,039,872	797,789
Intangible assets,net	557.167	568,602
Assets held for sale	373,525	-
Other	40,428	59,907
Total other assets	2,812,301	3,779,653
Total assets	$16,084,246	$16,795,391
Liabilities and Stockholders' Equity		
Current Liabilities		
Current maturities of long-term debt	$ 1,218,400	$ 1,188,300
Accounts payable	612,770	667,419
Accrued salaries and wages	678,223	881,451
Other accrued expenses	363,192	354,912
Total current liabilities	2,872,585	3,092,082
Long-Term Debt, Less Current Maturities	3,072,798	4,324,746
Deferred Gain on Sale of Assets	15,657	389,302
Deferred Income Taxes	232,215	168,464
Commitments and Contingencies	-	-
Stockholders' Equity		
Common stock, $.03 par value; 7,250,000 shares authorized; 2,500,123 and 2,474,640 shares issued and outstanding	75,004	74,239
Additional paid-in capital	2,721,433	2,544,351
Retained earnings	7,094,554	6,242,206
Less notes receivable from officers and directors	-	(39,999)
Total stockholders' equity	9,890,991	8,820,797
Total liabilities and stockholders' equity	$16,084,246	$16,795,391

The accompanying notes are an integral part of these statements.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	FOR THE YEARS ENDED FEBRUARY 28, 2003	2002	2001
Common Stock			
Balance at beginning of year	$ 74,239	$ 76,931	$ 95,475
Repurchase and retirement of common stock	-	(3,701)	(19,744)
Issuance of common stock	5	6	480
Exercise of stock options	760	1,003	720
Balance at end of year	75,004	74,239	76,931
Notes Receivable From Officers and Directors			
Balance at beginning of year	(39,999)	(168,747)	(208,746)
Reduction of notes	39,999	128,748	39,999
Balance at end of year	-	(39,999)	(168,747)
Additional Paid-In Capital			
Balance at beginning of year	2,544,351	2,907,379	5,855,884
Repurchase and retirement of common stock	-	(621,840)	(3,060,555)
Costs related to stock split	(15,278)	-	-
Issuance of common stock	1,263	1,078	49,520
Exercise of stock options	124,504	235,247	62,530
Tax benefit from employee stock transactions	66,593	22,487	-
Balance at end of year	2,721,433	2,544,351	2,907,379
Retained Earnings			
Balance at beginning of year	6,242,206	4,246,864	2,690,476
Net income	852,348	1,995,342	1,556,388
Balance at end of year	7,094,554	6,242,206	4,246,864
Total Stockholders' Equity	$9,890,991	$8,820,797	$7,062,427
Common Shares			
Balance at beginning of year	2,474,640	2,564,379	3,182,505
Repurchase and retirement of common stock	-	(123,355)	(658,126)
Issuance of common stock	150	200	16,000
Exercise of stock options and other	25,333	33,416	24,000
Balance at end of year	2,500,123	2,474,640	2,564,379

The accompanying notes are an integral part of these statements.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.
STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED FEBRUARY 28, 2003	2002	2001
Cash Flows From Operating Activities:			
Net income	$ 852,348	$1,995,342	$ 1,556,388
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	815,279	905,227	1,149,590
Provision for loss on accounts and notes receivable and related foreclosure costs	1,754,524	162,046	125,202
Provision for inventory loss	37,000	162,000	268,500
(Gain) loss on sale of assets	2,209	(138,824)	(29,875)
Changes in operating assets and liabilities:			
Accounts receivable	342,967	(887,947)	(308,785)
Refundable income taxes	(548,490)	37,574	39,115
Inventories	91,535	(603,779)	(116,386)
Other assets	37,941	(43,229)	(182,929)
Accounts payable	(54,649)	(397,791)	9,300
Income taxes payable	(49,943)	139,023	(120,463)
Deferred income taxes	27,726	11,794	145,281
Accrued liabilities	(334,347)	(75,608)	(8,649)
Net cash provided by operating activities	2,974,100	1,265,828	2,526,289
Cash Flows From Investing Activities:			
Additions to notes receivable	(1,033,097)	(659,258)	(173,581)
Proceeds received on notes receivable	530,043	195,494	129,163
Proceeds from sale of assets	13,940	382,018	1,495,670
Purchase of other assets	(11,578)	(231,228)	(199,523)
Purchase of property and equipment	(285,313)	(724,130)	(466,448)
Net cash provided by (used in) investing activities	(786,005)	(1,037,104)	785,281
Cash Flows From Financing Activities:			
Net change in line of credit	-	(550,000)	475,000
Proceeds from long-term debt	-	6,077,827	1,232,247
Payments on long-term debt	(1,221,848)	(5,418,921)	(2,082,658)
Repayment of loans by director, officers and former officers	39,999	128,748	39,999
Costs of stock split	(15,278)	-	-
Issuance of common stock	126,532	237,334	63,250
Repurchase and redemption of common stock	-	(625,541)	(3,080,299)
Net cash used in financing activities	(1,070,595)	(150,553)	(3,352,461)
Net Increase (Decrease) In Cash And Cash Equivalents	1,117,500	78,171	(40,891)
Cash And Cash Equivalents At Beginning Of Year	165,472	87,301	128,192
Cash And Cash Equivalents At End Of Year	$1,282,972	$ 165,472	$ 87,301

The accompanying notes are an integral part of these statements.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Rocky Mountain Chocolate Factory, Inc. is an international franchiser, confectionery manufacturer and retail operator in the United States, Guam, Canada, and the United Arab Emirates. The Company manufactures an extensive line of premium chocolate candies and other confectionery products. The Company's revenues are currently derived from three principal sources: sales to franchisees and others of chocolates and other confectionery products manufactured by the Company; the collection of initial franchise fees and royalties from franchisees' sales; and sales at Company-owned stores of chocolates and other confectionery products.

Cash Equivalents

Cash equivalents include cash in excess of daily requirements which is invested in various financial instruments having an original maturity of three months or less.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Property and Equipment and Other Assets

Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method based upon the estimated useful life of the asset, which range from five to thirty-nine years. Leasehold improvements are amortized on the straight-line method over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

The Company reviews its long-lived assets through analysis of estimated fair value, including identifiable intangible assets, whenever events or changes indicate the carrying amount of such assets may not be recoverable. The Company's policy is to review the recoverability of all assets, at a minimum, on an annual basis.

Amortization of Goodwill

Goodwill has historically been amortized on the straight-line method over ten to twenty-five years. In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 142 (SFAS 142), *Goodwill and Intangible Assets,* which revises the accounting for purchased goodwill and intangible assets. Under SFAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized, but will be tested for impairment annually, and also in the event of an impairment indicator. SFAS 142 is effective for fiscal years beginning after December 15, 2001. The Company adopted SFAS 142 on March 1, 2002.

Sales

Sales of products to franchisees and other customers are recognized at the time of shipment. Sales of products at retail stores are recognized at the time of sale.

Shipping Fees

Shipping fees charged to customers by the Company's trucking department are reported as sales. Shipping costs incurred by the Company's trucking department are reported as cost of sales.

Franchise and Royalty Fees

Franchise fee revenue is recognized upon completion of all significant initial services provided to the franchisee and upon satisfaction of all material conditions of the franchise agreement. In addition to the initial franchise fee, the Company receives a royalty fee of five percent (5%) and a marketing and promotion fee of one percent (1%) of the Rocky Mountain Chocolate Factory franchised stores' gross sales.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities, at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Vulnerability Due to Certain Concentrations

Franchised stores are concentrated (33%) in the factory outlet mall environment. At February 28, 2003, 4 Company-owned stores and 73 franchise stores of 230 total stores are located in this environment. The Company is, therefore, vulnerable to changes in consumer traffic in this market environment.

As of February 28, 2003, the Company had long-term notes receivable of approximately $444,000 due from two franchisees resulting from the Company financing the construction of their new concept stores. The notes are collateralized by the underlying store assets. The Company is, therefore, vulnerable to changes in the cash flow from these locations.

Stock-Based Compensation

Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation" encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" and provides the required pro forma disclosures prescribed by SFAS 123.

The Company has adopted the disclosure-only provisions of SFAS 123. In accordance with those provisions, the Company applies APB 25 and related interpretations in accounting for its stock option plans and, accordingly, does not recognize compensation cost if the exercise price is not less than market. No compensation expense was recognized during the three years ended February 28, 2003. If the Company had elected to recognize compensation cost based on the fair value of the options granted at grant dates as prescribed by SFAS 123, net income and earnings per share would have been reduced to the pro-forma amounts indicated in the table below for the years ending February 28(in 000's except per share amounts):

	2003	2002	2001
Net Income - as reported	$ 852	$ 1,995	$ 1,556
Net Income - pro forma	757	1,843	1,427
Basic Earnings per Share-as reported	.34	.81	.58
Diluted Earnings per Share-as reported	.32	.76	.57
Basic Earnings per Share-pro forma	.30	.75	.53
Diluted Earnings per Share-pro forma	.28	.71	.53

Advertising and Promotional Expenses

The Company expenses advertising costs as incurred. Total advertising expense amounted to approximately $420,000, $420,000 and $320,000 for the fiscal years ended February 28, 2003, 2002 and 2001, respectively.

Earnings Per Share

Basic earnings per share is computed as net earnings divided by the weighted average number of common shares outstanding during each year. Diluted earnings per share reflects the potential dilution that could occur from common shares issuable through stock options. During 2003, 2002 and 2001, 56,153, 62,495 and 293,333 stock options were excluded from diluted shares as their affect was anti-dilutive.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, trade receivables, payables, notes receivable, and debt. The fair value of all instruments approximates the carrying value.

NOTE 2 - INVENTORIES

Inventories consist of the following at February 28:

	2003	2002
Ingredients and supplies	$ 1,583,631	$ 1,538,107
Finished candy	1,478,504	1,588,983
	$ 3,062,135	$ 3,127,090

NOTE 3 - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at February 28:

	2003	2002
Land	$ 513,618	$ 513,618
Building	3,838,936	3,772,807
Machinery and equipment	6,746,190	6,512,836
Furniture and fixtures	658,145	592,677
Leasehold improvements	489,405	418,403
Transportation equipment	180,723	188,874
	12,427,017	11,999,215
Less accumulated depreciation	6,808,778	6,015,309
Property and equipment, net	$ 5,618,239	$ 5,983,906

NOTE 4 - LINE OF CREDIT AND LONG-TERM DEBT

Line of Credit

At February 28, 2003 the Company had a $2.5 million line of credit from a bank, collateralized by substantially all of the Company's assets with the exception of the Company's retail store assets. Draws may be made under the line at 75% of eligible accounts receivable plus 50% of eligible inventories. Interest on borrowings is at prime less 50 basis points (3.75% at February 28, 2003). At February 28, 2003, $2.5 million was available for borrowings under the line of credit, subject to borrowing base limitations. Terms of the line require that the line be rested (that is, that there be no outstanding balance) for a period of 30 consecutive days during the term of the loan. The credit line is subject to renewal in July, 2003.

Long-term debt

Long-term debt consists of the following at February 28:

	2003	2002
Mortgage note payable in monthly installments of $17,600 through August, 2016 including interest at 6.0% per annum, collateralized by land and factory building. Interest was subject to adjustment every 60 months until maturity in August, 2016 but was adjusted to a floating rate of prime less fifty basis points (currently 3.75%) effective November 15, 2002.	$ 1,947,500	$ 2,049,494
Notes payable in monthly installments of between $454 and $8,002. Repaid in fiscal 2003.	-	103,986
Chattel mortgage note payable in monthly installments of $65,500 through August, 2005 including interest at 6.00% per annum, collateralized by substantially all business assets. Interest rate was adjusted to a floating rate of prime less fifty basis points (currently 3.75%) effective November 15, 2002.	1,822,042	2,487,597

	2003	2002

NOTE 4 - LINE OF CREDIT AND LONG-TERM DEBT - CONTINUED

Long-term debt - continued	2003	2002
Chattel mortgage note payable in monthly installments of $30,300 through August, 2004 including interest at 6.00% per annum, collateralized by inventory, accounts, equipment and general intangibles. Interest rate was adjusted to a floating rate of prime less fifty basis points (currently 3.75%) effective November 15, 2002.	521,656	846,468
Chattel mortgage note payable in quarterly installments of $51,240 through January, 2002, and a final installment of $34,160 April, 2002, including interest at 6.73% per annum collateralized by equipment, furniture and fixtures.	-	25,501
	4,291,198	5,513,046
Less current maturities	1,218,400	1,188,300
	$ 3,072,798	$ 4,324,746

Maturities of long-term debt are as follows for the years ending February 28 or 29:

2004	$1,218,400
2005	1,022,500
2006	451,100
2007	97,000
2008	104,100
Thereafter	1,398,098
	$4,291,198

Additionally, the line of credit and certain term debt are subject to various financial ratio and leverage covenants. At February 28, 2003 the Company was in compliance with all such convenants.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Operating leases

The Company conducts its retail operations in facilities leased under five to ten-year noncancelable operating leases. Certain leases contain renewal options for between two and ten additional years at increased monthly rentals. The majority of the leases provide for contingent rentals based on sales in excess of predetermined base levels.

The following is a schedule by year of future minimum rental payments required under such leases for the years ending February 28 or 29:

2004	$ 254,400
2005	162,100
2006	113,000
2007	36,500
2008	11,500
	$ 577,500

In some instances, in order to retain the right to site selection or because of requirements imposed by the lessor, the Company has leased space for its proposed franchise outlets. When a franchise was sold, the store was subleased to the franchisee who is responsible for the monthly rent and other obligations under the lease. The Company's liability as primary lessee on sublet franchise outlets, all of which is offset by sublease rentals, is as follows for the years ending February 28 or 29:

NOTE 5 - COMMITMENTS AND CONTINGENCIES - CONTINUED

2004	$ 427,600
2005	313,800
2006	239,300
2007	135,500
2008	52,400
Thereafter	19,700
	$ 1,188,300

The following is a schedule of lease expense for all retail operating leases for the three years ended February 28:

	2003	2002	2001
Minimum rentals	$ 1,023,898	$ 1,206,337	$ 1,860,783
Less sublease rentals	(785,219)	(971,938)	(1,186,307)
Contingent rentals	9,628	8,999	22,030
	$ 248,307	$ 243,398	$ 696,506

The Company also leases trucking equipment under operating leases. The following is a schedule by year of future minimum rental payments required under such leases for the years ending February 28 or 29:

2004	$ 273,900
2005	200,900
2006	92,100
	$ 566,900

The following is a schedule of lease expense for trucking equipment operating leases for the three years ended February 28:

2003	2002	2001
$ 305,798	$ 260,988	$ 313,574

Contingencies

The Company is party to various legal proceedings arising in the ordinary course of business. Management believes that the resolution of these matters will not have a significant adverse effect on the Company's financial position, results of operations or cash flows.

NOTE 6 - INCOME TAXES

Income tax expense is comprised of the following for the years ending February 28:

	2003	2002	2001
Current			
Federal	$ 424,236	$1,033,009	$ 761,667
State	66,023	167,797	75,637
Total Current	490,259	1,200,806	837,304
Deferred			
Federal	24,939	10,608	128,539
State	2,787	1,186	16,742
Total Deferred	27,726	11,794	145,281
Total	$ 517,985	$1,212,600	$ 982,585

A reconciliation of the statutory federal income tax rate and the effective rate as a percentage of pretax income is as follows for the years ending February 29:

	2003	2002	2001
Statutory rate	34.0%	34.0%	34.0%
Goodwill amortization	-	.3%	.3%
State income taxes, net of federal benefit	3.3%	3.5%	2.2%
Other	.5%	-	2.2%
Effective Rate	37.8%	37.8%	38.7%

NOTE 6 - INCOME TAXES - CONTINUED

The components of deferred income taxes at February 28 are as follows:

	2003	2002
Deferred Tax Assets		
Allowance for doubtful accounts and notes	$ 43,305	$ 113,006
Inventories	26,520	45,897
Accrued compensation	39,508	64,999
Loss provisions	150,359	114,516
Self insurance accrual	28,902	-
Amortization, design costs and goodwill	45,790	42,219
	334,384	380,637
Deferred Tax Liabilities		
Depreciation	(308,966)	(327,493)
Deferred gain on sale	(83,017)	(83,017)
	(391,983)	(410,510)
Net deferred tax liability	$ (57,599)	$ (29,873)
Current deferred tax assets	$ 174,616	$ 138,591
Non-current deferred tax liabilities	(232,215)	(168,464)
Net deferred tax liability	$ (57,599)	$ (29,873)

NOTE 7 - STOCKHOLDERS' EQUITY

Stock Split

On January 28, 2002 the Board of Directors approved a four-for-three stock split payable March 4, 2002 to shareholders of record at the close of business on February 11, 2002. Shareholders received one additional share of Common Stock for every three shares owned prior to the record date and par value changed from $.03 to $.0225 per share. Immediately prior to the split there were 1,855,918 shares outstanding. Subsequent to the split there were 2,474,640 shares outstanding. All share and per share data have been restated in all years presented to give effect to the stock split.

Stock Repurchases

Between March 6, 2001 and September 28, 2001, the Company repurchased 123,355 Company shares at an average price of $5.07 per share. Of the shares repurchased during this time period, 25,333 were repurchased from employees.

In January 2001 the Company repurchased 61,333 Company shares at an average price of $3.80 per share.

On March 21, 2000, the Company commenced a tender offer to acquire shares of its common stock. Pursuant to the tender offer, which was completed on May 1, 2000, the Company acquired 596,793 shares of its issued and outstanding common stock at $4.6875 per share.

On May 15, 1998, the Company purchased 448,000 shares and certain of its directors and executive officers purchased 138,667 shares of the Company's issued and outstanding common stock at $3.8625 per share from La Salle National Bank of Chicago, Illinois, which obtained these shares through foreclosure from certain shareholders unrelated to any transactions of the Company. The Company loaned certain officers and directors the funds to acquire 53,333 of the 138,667 shares purchased by them. The loans are secured by the related shares, bear interest payable annually at 7.5% and were due May 15, 2003. All such loans were paid in full as of February 28, 2003.

NOTE 8 - STOCK OPTION PLANS

Under the Company's 1985 Incentive Stock Option Plan (the "1985 Plan"), options to purchase 286,667 shares of the Company's common stock were granted at prices not less than market value at the date of grant. The 1985 Plan expired in October 1995. Options granted under the 1985 Plan could not have a term exceeding ten years. Options representing the right to purchase 22,333 shares of the Company's common stock remained outstanding under the 1985 Plan at February 28, 2003.

NOTE 8 - STOCK OPTION PLANS - CONTINUED

Under the 1995 Stock Option Plan (the "1995 Plan"), the Nonqualified Stock Option Plan for Nonemployee Directors (the "Director's Plan") and the 2000 Nonqualified Stock Option Plan for Nonemployee Directors (the "2000 Director's Plan"), options to purchase up to 400,000, 120,000 and 80,000 shares, respectively, of the Company's common stock may be granted at prices not less than market value at the date of grant. Options granted may not have a term exceeding ten years under the 1995 plan and the Director's Plan. Options granted may not have a term exceeding five years under the 2000 Director's Plan. Options representing the right to purchase 346,998, 26,666 and 63,996 shares of the Company's common stock were outstanding under the 1995 Plan, the Director's Plan, and the 2000 Director's Plan, respectively, at February 28, 2003. Options become exercisable over a one to five year period from the date of the grant. The options outstanding under these plans will expire, if not exercised, in January 2004 through March 2012.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model utilizing the following weighted average assumptions:

	2003	2002	2001
Expected dividend yield	0%	0%	0%
Expected stock price volatility	40%	40%	50%
Risk-free interest rate	4.3%	4.8%	6.5%
Expected life of options	5 years	5 years	7 years

Information with respect to options outstanding under the Plans at February 28, 2003, and changes for the three years then ended was as follows:

2003	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	433,994	$ 4.82
Granted	51,332	9.09
Exercised	(25,333)	4.94
Outstanding at end of year	459,993	5.29
Options exercisable at February 28, 2003	325,726	4.94

2002	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	382,661	$ 5.09
Granted	104,665	4.75
Exercised	(33,332)	7.09
Forfeited	(20,000)	5.94
Outstanding at end of year	433,994	$ 4.82
Options exercisable at February 28, 2002	309,328	$ 4.97

2001	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	394,661	$ 5.01
Granted	13,333	3.00
Exercised	(24,000)	2.63
Forfeited	(1,333)	5.81
Outstanding at end of year	382,661	$ 5.09
Options exercisable at February 28, 2001	247,733	$ 5.73

Weighted average fair value per share of options granted during 2003, 2002 and 2001 were $3.81, $1.98 and $1.40, respectively.

NOTE 8 - STOCK OPTION PLANS - CONTINUED

Additional information about stock options outstanding at February 28, 2003 is summarized as follows:

	Options Outstanding		
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price
$3.00 to 3.7035	133,666	6.31 years	$3.47
$3.84 to 4.40625	186,665	4.64 years	3.99
$5.625 to 13.50	139,662	5.76 years	8.78

	Options Exercisable	
Range of exercise prices	Number Exercisable	Weighted average exercise price
$3.00 to 3.7035	78,999	$3.40
$3.84 to 4.40625	175,999	3.99
$5.625 to 13.50	70,729	9.04

NOTE 9 - OPERATING SEGMENTS

The Company classifies its business interests into two reportable segments: Franchising and Manufacturing. Previously the Company segregated Retail as a third reportable segment. The Company has phased out its Company-owned store program to eight remaining stores. The remaining stores provide an environment for testing new products and promotions, operating and training methods and merchandising techniques. Company management evaluates these stores in relation to their contribution to franchising efforts. The previously reported Retail segment is now included in the Franchising segment and all previously reported periods have been restated. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1. The Company evaluates performance and allocates resources based on operating contribution, which excludes unallocated corporate general and administrative costs, provision for loss on accounts and notes receivable and related foreclosure costs and income tax expense or benefit. The Company's reportable segments are strategic businesses that utilize common merchandising, distribution, and marketing functions, as well as common information systems and corporate administration. All inter-segment sales prices are market based. Each segment is managed separately because of the differences in required infrastructure and the difference in products and services:

	Franchising	Manufacturing	Other	Total
FY 2003				
Total revenues	$ 5,555,876	$ 14,794,847	$ -	$ 20,350,723
Intersegment revenues	-	(889,251)	-	(889,251)
Revenue from external customers	5,555,876	13,905,596	-	19,461,472
Segment profit (loss)	1,635,959	3,701,220	(3,966,846)	1,370,333
Total assets	2,352,483	8,514,487	5,217,276	16,084,246
Capital expenditures	139,948	216,822	367,360	724,130
Provision for loss on accounts and notes receivable and related foreclosure costs	-	-	1,666,524	1,666,524
Total depreciation & amortization	206,923	411,994	196,362	815,279
FY 2002				
Total revenues	$ 5,819,742	$ 14,692,696	$ -	$ 20,512,438
Intersegment revenues	-	(1,073,361)	-	(1,073,361)
Revenue from external customers	5,819,742	13,619,335	-	19,439,077
Segment profit (loss)	1,750,056	3,898,178	(2,440,292)	3,207,942
Total assets	2,009,009	9,310,982	5,475,400	16,795,391
Capital expenditures	139,948	216,822	367,360	724,130
Total depreciation & amortization	272,359	432,714	200,154	905,227
FY 2001				
Total revenues	$ 10,638,310	$ 14,284,080	$ -	$ 24,922,390
Intersegment revenues	-	(2,350,553)	-	(2,350,553)
Revenue from external customers	10,638,310	11,933,527	-	22,571,837
Segment profit (loss)	1,534,719	3,876,785	(2,872,531)	2,538,973
Total assets	3,252,033	8,656,411	3,133,619	15,042,063
Capital expenditures	211,667	134,740	120,041	466,448
Total depreciation & amortization	507,505	457,629	184,456	1,149,590

NOTE 10 - SUPPLEMENTAL CASH FLOW INFORMATION

For the three years ended February 28:

	2003	2002	2001
Interest paid	$ 298,141	$ 448,384	$ 666,055
Income taxes paid	1,088,692	1,024,208	918,653
Non-Cash Investing Activities:			
Company financed sales of retail store asset	$ -	$ 1,429,317	$ 1,128,643
Fair value of assets received upon foreclosure of notes:			
Tangible store assets			
Held for sale	430,260	-	-
Store to be operated	82,917	-	-
Goodwill	242,083	-	-

NOTE 11 - EMPLOYEE BENEFIT PLAN

The Company has a 401(k) plan called the Rocky Mountain Chocolate Factory, Inc. 401(k) Plan. Eligible participants are permitted to make contributions up to 15% of compensation. The Company makes a matching contribution, which vests ratably over a 3-year period, and is 25% of the employee's contribution up to a maximum of 1.5% of the employee's compensation. For fiscal 2001 the Company made an additional discretionary contribution by doubling the normal matching. During the years ended February 28 or 29, 2003, 2002 and 2001, the Company's contribution was approximately $33,000, $33,000 and $68,000, respectively, to the plan.

NOTE 12 - STORE SALES AND FORECLOSURES

In connection with the Company's plans to phase out its Company-owned stores, the Company sold ten Company-owned stores in fiscal 2002 resulting in sales proceeds consisting of cash and notes receivable of approximately $1.2 million and recognized and deferred gains of approximately $124,000 and $386,000, respectively.

In connection with the Company's plans to phase out its Company-owned stores, the Company sold eighteen Company-owned stores in fiscal 2001 resulting in sales proceeds consisting of cash and notes receivable of approximately $2.3 million and recognized and deferred gains of approximately $542,000 and $193,000, respectively.

At February 28, 2003, the Company has $1,139,000 of notes receivable outstanding. The notes require monthly payments and bear interest at rates ranging from 7.5% to 12.5%. The notes mature through October 2006 and are secured by the assets financed.

During fiscal 2002 the Company adjusted the repayment schedule of the notes from a single franchisee to correspond to the franchisee's store operating cycles. The Company also financed an additional $300,000 of inventory and wrote-off $243,750 of the notes receivable. During fiscal 2003 the Company financed $230,000 for an additional store for the franchisee. During the third quarter of fiscal 2003 the Company recorded an additional $1,667,000 provision for potential loss on accounts and notes receivable and foreclosure costs related to the insolvency of this franchisee. In December 2002, the Company foreclosed on four of the stores previously operated by the franchisee and plans to operate one such retail outlet as a Company-owned store and sell three stores to other franchisees. At February 28, 2003 the Company has no balance recorded for notes receivable from this franchisee.

NOTE 13 - SUMMARIZED QUARTERLY DATA (UNAUDITED)

Following is a summary of the quarterly results of operations for the fourth quarter ended February 28, 2003 and 2002:

	Fiscal Quarter				
	First	Second	Third	Fourth	Total
2003					
Total revenue	$ 3,972,339	$ 5,066,360	$ 5,632,577	$ 4,790,196	$19,461,472
Gross margin	1,213,860	1,477,146	1,505,766	1,111,001	5,307,773
Net income (loss)	459,427	615,840	(472,653)	249,734	852,348
Basic earnings (loss) per share	.18	.25	(.19)	.10	.34
Diluted earnings (loss) per share	.17	.23	(.19)	.09	.32

NOTE 13 - SUMMARIZED QUARTERLY DATA (UNAUDITED) - CONTINUED

	Fiscal Quarter				
	First	Second	Third	Fourth	Total
2002					
Total revenue	$ 4,232,774	$ 4,689,691	$ 5,608,251	$ 4,908,361	$ 19,439,077
Gross margin	1,277,392	1,523,235	1,357,650	1,453,076	5,611,353
Net income	350,835	607,973	612,577	423,957	1,995,342
Basic earnings per share	.14	.25	.25	.17	.81
Diluted earnings per share	.14	.23	.23	.16	.76

NOTE 14 - GOODWILL AND INTANGIBLE ASSETS

Effective March 1, 2002 the Company adopted Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Intangible Assets. SFAS 142 revised the accounting for purchased goodwill and intangible assets. Under SFAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized, will be tested for impairment annually and also in the event of an impairment indicator, and must be assigned to reporting units for purposes of impairment testing and segment reporting.

The Company has historically amortized goodwill on the straight-line method over ten to twenty-five years. Beginning March 1, 2002, quarterly and annual goodwill amortization is no longer recognized. The Company completed a transitional fair value based impairment test of goodwill as of March 1, 2002. There were no impairment losses resulting from the transitional testing. The Company has three reporting units with goodwill.

The changes in the carrying amount of goodwill for the year ended February 28, 2003, are as follows:

	Franchising Segment	Manufacturing Segment	Total
Balance as of March 1, 2003	1,235,000	295,000	1,530,000
Goodwill acquired during year	242,083	-	242,083
Balance as of February 28, 2003	1,477,083	295,000	1,772,083

Intangible assets consist of the following at February 28:

		2003		2002	
	Amortization Period	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Store design	10 Years	$ 189,640	23,034	$ 149,883	$ 7,234
Packaging licenses	3-5 Years	95,831	61,670	95,831	28,383
Packaging design	10 Years	403,238	46,838	366,932	8,427
Total		688,709	131,542	612,646	44,044
Intangible assets not subject to amortization					
Franchising segment-					
Company stores goodwill		1,182,083	336,847	940,000	336,847
Franchising goodwill		295,000	197,682	295,000	197,682
Manufacturing segment-Goodwill		295,000	197,682	295,000	197,682
Total Goodwill		1,772,083	732,211	1,530,000	732,211
Total intangible assets		2,460,792	863,753	$2,142,646	$ 776,255

Amortization expense related to intangible assets totaled $87,498 and $161,652 during the fiscal year ended February 28, 2003 and 2002. The aggregate estimated amortization expense for intangible assets remaining as of February 28, 2003 is as follows:

2004	$ 72,500
2005	71,400
2006	71,400
2007	60,200
2008	60,000
Thereafter	221,667
Total	$557,167

NOTE 14 - GOODWILL AND INTANGIBLE ASSETS - CONTINUED

Net income and earnings per share for the year ended February 28, 2003, 2002 and 2001 adjusted to exclude goodwill amortization is as follows:

	2003	2002	2001
Reported net income	$ 852,348	$1,995,342	$1,556,388
Goodwill amortization, net of tax	-	73,152	92,381
Adjusted net income	$ 852,348	$2,068,494	$1,648,769
Basic earnings per share:			
Reported net income	$ .34	$ .81	$ .58
Goodwill amortization, net of tax	-	.03	.03
Adjusted net income	$ .34	$ .84	$ .61
Diluted earnings per share:			
Reported net income	$ .32	$ .76	$ .57
Goodwill amortization, net of tax	-	.02	.04
Adjusted net income	$ .32	$ .78	$ .61

NOTE 15 - ASSETS HELD FOR SALE

Assets held for sale consist of three fully operational stores and individual items of equipment, furniture and fixtures that were acquired in partial satisfaction of certain notes receivable from a franchisee. The notes were originally extended as part of store sales and construction financing of additional stores for the franchisee (Note 12). Management expects to dispose of the operating stores and other acquired assets to either existing franchisees who plan to upgrade or expand their operations or to prospective franchisees. These assets are included in "Other" for segment reporting.

NOTE 16 - RECENT ACCOUNTING PRONOUNCEMENTS

Effective March 1, 2002 the Company adopted Statement of Financial Accounting Standards No. 144 (SFAS 144), Accounting for Impairment or Disposal of Long-Lived Assets. SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The implementation of this standard did not have an effect on the Company's financial position, results of operations or cash flows.

In July 2002, the Financial Accounting Standards Board (FASB) issued SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS 146 nullifies FASB Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. It requires that a liability be recognized for those costs only when the liability is incurred, that is, when it meets the definition of a liability in the Financial Accounting Standards Board's conceptual framework. SFAS No. 146 also establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with earlier adoption encouraged. The Company does not expect SFAS 146 to have a material effect on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS 148, *Accounting for Stock-Based Compensation – Transition and Disclosure: an amendment of FASB Statement 123 (SFAS 123)*. SFAS 148 provides alternative transition methods for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in annual financial statements about the method of accounting for stock-based employee compensation and the pro forma effect on reported results of applying the fair value based method for entities that use the intrinsic value method of accounting. The pro forma effect disclosures are also required to be prominently disclosed in interim period financial statements. This statement is effective for financial statements for fiscal years ending after December 15, 2002 and is effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002, with earlier application permitted. The Company does not plan to change to the fair value based method of accounting for stock-based employee compensation at this time and has included the disclosure requirements of SFAS 148 in the accompanying financial statements.